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National Intelligence Daily Cable for Saturday, October 2, 1976.

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The NID Cable is for the purpose of informing senior US officials.

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USSR - Middle East: Soviet Proposal

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[] The Soviet proposal yesterday for a resumption this month or in November of the Geneva Conference on the Middle East caps several weeks of Soviet diplomatic activity. Arab press sources claim that the USSR will make another initiative in the next few days aimed at arranging a cease-fire in Lebanon.

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[] The call for a return to Geneva is similar to the Soviet proposal last April. At that time, Moscow was concerned that Egyptian abrogation of the Soviet-Egyptian friendship treaty--together with the visit of a US diplomatic mission to Lebanon--had created the impression that the USSR was on the outside looking in.

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[] The latest Soviet proposal includes:

--A two-stage conference, the first stage dealing with organizational and procedural problems and the second with substantive issues.

--Palestinian attendance "on an equal footing from the very outset"--phrasing which is far more supportive of the PLO's role than the Soviet proposal in April.

--An agenda that includes discussion of Israeli withdrawal from all occupied Arab territories and the establishment of a Palestinian state.

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[] The Soviet statement makes a point of appealing to Israel by including agenda items that stress "appropriate international guarantees" for Israel's existence and security, as well as an end to the state of war between Arabs and Israelis. Unlike the earlier Soviet proposal, however, the USSR does not imply that a peace settlement would lead to the re-establishment of diplomatic relations with Israel.

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[] The Soviets want to be part of any major negotiating activity in the Middle East. Their latest actions also suggest that they believe the Lebanese situation is in a critical phase--especially after the Syrian offensive that began on Tuesday--and that it will further complicate Soviet relations with both Syrians and Palestinians. A Soviet embassy officer in Cairo commented privately on Thursday that the Syrian move took the USSR by surprise.

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[] The Soviets may also have felt on the defensive as a result of the unexpected progress made by Secretary Kissinger's diplomatic shuttle in southern Africa.

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[] The USSR's Geneva exercise has been a sterile one in the past, and there is no reason to believe the Soviets have any genuine hope that it will be more successful this time.

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[] Any Soviet initiative on Lebanon would also have trouble getting off the ground, judging from Syrian President Asad's recent public statements. Asad, who has never before spoken so openly of his differences with the USSR, went out of his way to be critical of the Soviets and any further Soviet efforts to bring about a Syrian withdrawal from Lebanon.

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[] Asad acknowledged that General Secretary Brezhnev had asked for a Syrian withdrawal in July, but dismissed the request as nothing more than an "expression of a point of view." He implied that the Soviets were ignorant of the real factors in Lebanon, and indicated that Syrian forces would remain there until their job was done.

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[] Moscow's current proposals follow a flurry of diplomatic activity that began three weeks ago:

--An authoritative Observer article that appeared in *Pravda* on September 8 announced a more even-handed policy toward Syrians and Palestinians.

--The Soviets consulted in mid-September with Palestine Liberation Organization leaders Arafat in Beirut and Qaddumi in Moscow, with Arafat reportedly receiving two messages from the Soviet leadership.

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[] Additionally, Geneva Conference representative Vinogradov visited Syria two weeks ago to get Damascus' support for the Soviet initiative. There also were diplomatic contacts with other Arab states, including Egypt and Iraq. []

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LEBANON: Situation Report

25X1 [] Christian forces began their attack on Alayh, one of two remaining Palestinian-leftist strongholds on the Beirut-Damascus highway, early yesterday morning with a triumphant announcement to the town's inhabitants that they were on their way to liberate it from the "occupation of foreigners."

25X1 [] The Christians are moving on Alayh from the north and presumably intend to press the attack from the south as well after taking over a key road junction. The Christians are reported to have taken positions on the outskirts of Alayh but have apparently not yet entered the town.

25X1 [] //Syrian forces have thus far limited their support for the Alayh operation to artillery attacks on the town from Bhamdun.// The Syrians encircled Bhamdun, the second leftist stronghold on the highway, early yesterday after moving south from their operations in the mountains earlier this week. They are shelling the town but have not yet attempted to take it.

25X1 [] Although the Christians and Syrians seem determined to open the Beirut-Damascus highway by taking Alayh and Bhamdun, operations against both towns will presumably be more difficult than the two-day mountain offensive. Both are relatively large urban centers similar to Sidon, where Syrian forces suffered costly losses earlier this year before they abandoned their attempt to take the town.

25X1 [] The mountain towns seized this week had, moreover, been largely abandoned by their inhabitants, whereas Alayh and Bhamdun are still inhabited.

25X1 [] Most of the Palestinian forces driven from the mountains earlier this week have also moved into Alayh and are apparently bent on putting up a stiff resistance to Christian and Syrian advances.

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[redacted] The Palestine Liberation Organization rejected Syria's terms for a cease-fire late on Thursday and vowed to fight on to "defend its existence."

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[redacted] There are growing indications of frayed relations between Palestinian and leftist forces over the leftists' conduct during the Syrian offensive this week.

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[redacted] The resentment may have been deepened by the behavior of leftist leader Kamal Jumblatt. There are indications that Jumblatt insisted before the Syrian attack began that Palestinian and leftist forces stand and fight; Jumblatt then left the country for a tour of several Arab capitals

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[redacted] Syria seems to have begun a major effort to associate President Sarkis with the Syrian offensive, although Sarkis himself has been at pains to make it clear in private contacts that he had nothing to do with it.

[redacted] Damascus radio yesterday broadcast a press conference given in Aynturah by a commander of the "Vanguards of the Lebanese Army" claiming that his forces had taken the town on the explicit orders of Sarkis. In fact, Syrian forces captured Ayn-turah, and the "Vanguards"--a Syrian-sponsored group of Christian and Shia Muslim troops gathered from the former Lebanese army--are at this point little more than a front for Syrian troops.

[redacted] The direct linkage of Sarkis with the mountain offensive will be a serious embarrassment for the new President. He is already under pressure from leftists to take a stand against the Syrian presence in Lebanon, and his association with the offensive will serve to reinforce the Palestinians' suspicion that he is at best a powerless tool of Syria.

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CHINA: National Day Observances

25X1 [] Chinese leaders did not hold the festive activities usually associated with the celebration of National Day, such as banquets and parties in the parks, but the Peking-based members of the Politburo did appear Thursday night at a meeting attended by 400 representatives of the "masses."

25X1 [] The leaders were listed in their normal protocol order, projecting an image of unity and continuity. The meeting itself was billed as a symbol of the unity between the leadership and the people.

25X1 [] A brief account of a speech by de facto party head Hua Kuo-feng contained no references to the current campaign of criticism against rightists. Politburo members based in the provinces attended similar meetings at home, indicating that the meeting of the full Politburo that apparently began after Mao's death is now over.

25X1 [] In contrast to the usual procedure for National Day, Peking's three major publications did not issue a joint editorial. Instead, *People's Daily* published a bland editorial of its own that called for studying Mao's works and made only passing reference to the need for "struggle" against the "bourgeoisie" in the party.

25X1 [] The other two major publications that normally collaborate in joint editorials did not lend their weight to the *People's Daily* editorial. This could indicate some dissatisfaction that it did not push the antirightist theme hard enough.

25X1 [] The editorial in fact was much milder in tone than some recent articles in *People's Daily* and *Red Flag*. These articles have suggested efforts by the party's left wing to breathe new life into the antirightist campaign. The articles have called for opposing capitalist roaders "no matter who they are" and for sweeping out "bourgeois trash from every corner."

25X1 [] In another possible sign of dissension among the leadership, an article in *Red Flag* resurrected a quotation from the now-disgraced former defense minister Lin Piao extolling Mao's thought. This prominent use of a well-known Lin statement is the latest of a number of signs that Lin and the "coup"

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with which he was associated may remain a contentious issue, and suggests that there is continued unhappiness over the loss of prestige suffered by the army since Lin's fall. [REDACTED]

WEST GERMANY: Pre-election Wrap-up

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[REDACTED] Tomorrow's parliamentary election in West Germany remains a toss-up. Public opinion polls conducted during the past two weeks suggest that the governing parties have a slight lead, but the pollsters acknowledge a 2-percent margin for error.

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[REDACTED] The 10 to 12 percent of the voters who were still undecided will have a critical impact. Final results will not be known until at least several hours after the polls close at 1300 EDT on Sunday.

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[REDACTED] Several weeks of hectic campaigning, marred toward the end by mudslinging, reached a climax on September 30 with a four-hour televised debate among the chief political leaders.

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[REDACTED] Social Democratic Chancellor Schmidt, Christian Democratic leader Kohl, and the two presumptive vice chancellors--Foreign Minister Genscher, leader of the Free Democrats, and Franz-Josef Strauss, leader of the Bavarian Christian Social Union--addressed their remarks during the debate primarily to the uncommitted voters.

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[REDACTED] Schmidt attempted to score political points by announcing that unemployment in West Germany declined during September and is now below 900,000 and the 4-percent mark. Kohl was at his best when attacking the government on its Ostpolitik.

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[REDACTED] The Christian Social Union is likely to score heavily in Bavaria, and the Christian Democrats will do well in the other southern states in West Germany. The Christian Democrats will also probably make gains in Hesse, where Social Democratic leaders are involved in scandals, and possibly in the Hamburg area.

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[REDACTED] The key state--as in the past--will be North - Rhine Westphalia. Nearly 30 percent of the voters live there, and over one third of the parliamentary deputies are elected from that state.

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25X1 [] The Christian Democrats had been doing well there recently, largely because of the aggressive tactics of the party's secretary general, but even some Christian Democrats admit that his charges of "cronyism" among trade union leaders and the Social Democrats may backfire. []

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USSR - West Germany: Support for Ruling Coalition

25X1 [] As the West German election campaign enters its final days, the USSR has gone out of its way to demonstrate that it favors a victory for the ruling Social Democrat - Free Democrat coalition.

25X1 [] The most dramatic Soviet gesture in support of Chancellor Schmidt's government was the announcement last week that Soviet party chief Brezhnev will visit Bonn, probably late this year. An invitation to Brezhnev was extended and accepted in October 1974 during Schmidt's visit to Moscow, but Soviet - West German relations have fluctuated since then and the visit had been repeatedly postponed.

25X1 [] The Soviet attitude toward the coalition has been ambivalent over the last year, reflecting concern that Bonn was retreating from the Ostpolitik of former chancellor Brandt.

25X1 [] The Soviets, for example, have been critical of Minister of Defense Leber, a conservative Social Democrat, who has advocated building up the West German military in the face of growing Soviet strength and has disparaged Soviet proposals at the Vienna force reduction talks.

25X1 [] The Soviets were also disturbed by the increasingly critical attitude of Foreign Minister Genscher, the leader of the Free Democrats, who has insisted that legal, cultural, and scientific-technological agreements under negotiation between the two countries would apply to West Berlin as well.

25X1 [] Moscow's decision to help the coalition in the election may have stemmed in part from the increasing attacks during the summer by the Christian parties on the Schmidt government for its weakness in negotiating with the Soviets. The opposition's accusations coincided with a number of incidents on the

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border between the two Germanies and with East German interference with busloads of young Christian Democrats en route to West Berlin to demonstrate against the Berlin Wall.

25X1 [] After meetings in West Berlin at which Christian Democratic and Christian Social Union officials challenged the Soviet view of West Berlin's ties with West Germany, the Soviets issued a series of attacks on the two parties, singling out leaders such as Franz-Josef Strauss, whom they called a relentless advocate of an anti-Soviet, cold war line.

25X1 [] At the same time, the USSR stopped criticizing Genscher. Soviet Ambassador Falin held a highly publicized meeting with Genscher in late August. Both sides conveyed the impression that new developments in bilateral relations would be discussed when the West German and Soviet foreign ministers met in New York during the UN General Assembly session.

25X1 [] Earlier, the Soviets had taken other steps designed to be helpful to the ruling coalition, as well as to demonstrate to the West German voter the practical benefits of good relations with the USSR. Moscow stepped up the number of approvals for exit visas for ethnic German Soviet citizens, promoted trade fairs in West Germany and West Berlin, and ignored minor incidents on the transit routes to Berlin.

25X1 [] If, contrary to Soviet hopes, the opposition parties win the election, the initial Soviet reaction will be to back off until cabinet posts are filled and a government program emerges. Although Christian Social Union leader Strauss, a likely candidate for minister of finance, is particularly disliked in Moscow, the Soviets would probably suspend their anti-Strauss propaganda while they see how he behaves in office.

25X1 [] Similarly, should an incident involving West Berlin or East Germany occur, the Soviets would react cautiously, with a sharp eye on the new government's response. Soviet-German relations in the past have reflected the USSR's willingness to deal with whoever is in power. Moscow is unlikely to deviate from this principle after the election returns are in. []

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ANGOLA: Military Operations

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[] The Neto government is carrying out military operations against National Union insurgents in southern Angola near the Namibian border. Government forces are being supported by Cubans and apparently also by some guerrillas of the South West Africa People's Organization.

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[] The operations have sparked serious unrest among the population on the Angolan side of the border between Calueque and Pereira de Eca. The South African government confirmed earlier this week that construction has been suspended at two key points--Calueque and Ruacana--of the joint Angolan - South African Cunene hydroelectric project. Work at Calueque was halted at the request of the Angolan government.

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[] The Angolans have disputed news stories in the South African media indicating that the operations have resulted in widespread killing of innocent persons. According to the stories, refugees reaching Namibia this week claimed that 500 persons had been killed since the operations began last weekend.

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[] The Angolan-Namibian border area is likely to become the scene of increasing military activity in the months ahead. The Neto regime is anxious to extend its authority to the border and, with Cuban help, has established a number of garrisons in the area.

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[] SWAPO would like to step up its incursions into Namibia from Angola, especially now that South Africa's control over the territory is attracting international attention. Until recently, SWAPO conducted its limited guerrilla operations mainly from Zambia.

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[redacted] The South Africans, who have been concerned over the border area for some time, apparently believe the present operations in Angola are designed to provide support for future SWAPO incursions into Namibia.

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[redacted] South African forces have apparently been carrying on limited operations of their own in southern Angola with the assistance of anti-Neto Angolans. Neto's forces captured a South African soldier and three Angolans in southeastern Angola in late August. [redacted]

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USSR-UGANDA: New Arms Agreement

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[redacted] The USSR has evidently signed a new arms agreement with Uganda. The accord may provide for the replacement of the MIG-21 fighters destroyed during the Israeli commando raid on Entebbe Airport in early July.

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[redacted] According to Western and Ugandan press sources, a Soviet delegation signed an arms agreement in Kampala on September 28. No details are available, but Ugandan President Amin hailed the agreement as "effective and timely."

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[redacted] Amin has been attempting to obtain replacement aircraft from the USSR, which provided Uganda's first MIG-21 fighters in 1975. After the Entebbe episode, Amin and the Soviet charge in Kampala reportedly held discussions on re-equipping the Ugandan armed forces. [redacted]

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FRANCE: Economic Program

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[redacted] President Giscard is attempting--without much success--to rally popular support for the French government's economic stabilization program.

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25X1 [] In a major television address on Thursday, Giscard tried to put the full weight of the presidency behind Prime Minister Barre's plan, which is aimed at reducing inflation. He called for national solidarity and appealed to the French people for the sacrifices necessary to make the plan work.

25X1 [] Although the Gaullist deputies have reluctantly agreed to support the austerity program, it has been criticized by a variety of other groups. The Socialist-Communist coalition, which adamantly opposes the plan, yesterday announced its support for a national strike on October 7 called by three major labor organizations. A Socialist-leaning labor organization and the "cadres" union, composed of middle and upper level managerial employees, are also critical of the plan but will not join in the strike.

25X1 [] Criticism from the "cadres" union, an important and sizable group in France, must be disappointing to Giscard because he reportedly trimmed back a plan by Barre that would have hit this group harder. The Socialist Party is becoming increasingly attractive to a growing number of these white collar workers, who apparently see the prospect of a socialist-type economy, with more nationalizations and greater control of the private sector, as offering them a chance to exercise authority on a scale they have not had under private management.

25X1 [] President Giscard is also faced with a challenge from within his own coalition. Former prime minister Chirac's announcement Thursday--in tones reminiscent of de Gaulle--that he will lead his own personal crusade against the left in the 1978 election should intensify his rivalry with Giscard. It may also expose the Barre plan to further sniping from the right.

25X1 [] Chirac launched his comeback effort in a letter to his fellow Gaullists calling for an extraordinary convention of the Gaullist rank and file to "enlarge and transform" the movement. This broad appeal and Chirac's offer of himself as an alternative to Giscard received the personal support of Gaullist secretary Guena, who said the party would make a decision later in the month. If the convention is held, it will probably acclaim Chirac as its leader.

25X1 [] Before he can return to parliament, Chirac faces a by-election in his own district on November 7. His present initiative helps keep his name in the headlines.

25X1 [] Chirac's move undercuts Giscard's efforts to attract a broad-based majority. A mid-September poll showed that Giscard's popularity had slipped several points since July. In addition, although 58 percent of the French view Barre in a favorable light, an equal number think his chances of reducing inflation are poor. []

EC: Fisheries Policy

25X1 [] //An EC Commission paper that proposes a new fisheries policy for the Community may prove to be the most contentious issue facing the Community over the next several months. It has already drawn strongly adverse reactions from the UK and Ireland, which believe it does not provide sufficient protection for their fishing industries.//

25X1 [] //The paper rejects British and Irish demands for an exclusive offshore fishing zone of up to 50 miles (80 kilometers). It suggests instead a 12-mile (19-kilometer) zone for each coastal state, with quotas for fish caught in the remaining EC waters to be divided among the Nine and specified third countries.//

25X1 [] //The Commission would grant higher quotas to coastal states, taking into consideration such matters as traditional fishing practices, regional impact, and losses resulting from a state's exclusion from non-EC waters--such as off the coast of Iceland. It would also offer the UK and Ireland financial aid to restructure their fishing industries.//

25X1 [] //Present EC policy provides for 6- to 12-mile (9.6- to 19-kilometer) variable national zones until 1982, at which time all EC fishermen will be given equal access to Community waters. The UK and Ireland are not happy with the present policy, maintaining that a wider zone is essential for the survival of their fishing industries. They insist that the policy was adopted "in indecent haste" just before negotiations on the enlargement of the Community began.//

25X1 [] //The original six EC members, led by France, contend that there is no legal basis to extend the zone beyond 12 miles (19 kilometers) and that the UK and Ireland passed up their chance to negotiate this issue in 1973 when they signed the Treaty of Accession to the EC.//

25X1 [] //According to a British Foreign Ministry official, the UK is now considering whether it can use its leverage in other areas--such as the common agricultural policy--to get its way on fisheries. The Six, supported by Denmark, are determined to resist such pressures, and the issue is expected to provoke a contentious debate when the EC foreign ministers discuss the Commission's plan at their meeting in Brussels on October 18 and 19.//

25X1 [] //Irish officials, themselves surprised by the nationalistic response the Commission proposal has evoked in Ireland, say it is unacceptable and plan to take a hard line at the foreign ministers' Council. Ireland catches most of its fish within 50 miles (80 kilometers) of its shore and views the proposed quota system as a serious threat to its nascent fishing industry.//

25X1 [] //The Irish navy commandeered and impounded a large Soviet trawler and a Bulgarian factory ship this week. The Irish actions are intended to convince other foreign fishermen of Dublin's determination to enforce its jurisdiction and underscore the importance it attaches to the issue.//

25X1 [] //The UK and Ireland have pushed hardest among the Nine for establishment of a 200-mile (322-kilometer) Community zone, citing growing competition in Community waters from non-EC countries--particularly the Soviet Union and some East European states. Iceland, Norway, Canada, and the US have declared 200-mile (322-kilometer) exclusive fishing zones or will do so soon. Britain has threatened to declare a national 200-mile (322-kilometer) zone unilaterally on the first of January should the EC fail to act by then.//

25X1 [] //The Commission proposal does, in fact, call on the Nine to declare a 200-mile (322-kilometer) zone in January. Efforts will undoubtedly be made to convince Britain and Ireland that establishing such a zone hinges on an agreement for a new EC fishing policy that includes the 12-mile (19-kilometer) limit on each country's exclusive fishing zone. []

ITALY: Industrial Reorganization

25X1 [] Italy's major labor leaders and leftist political parties reacted critically this week to the Andreotti government's initial proposals in the key area of industrial reorganization and development. A coming parliamentary debate on the issue could provide a major test of the Communist Party's ability to influence the government's program.

25X1 [] Andreotti is proposing that the government provide guidance and funds to streamline and develop industry, reallocate workers more effectively, promote export trade, and modernize agriculture. According to press speculation, about \$7 billion would be spent in the first four years; the entire program would require approximately \$20 billion. A substantial portion of the funds would come from price increases on various public services and government-controlled commodities.

25X1 [] The government reportedly is inclined to deal with industry-related problems on a case-by-case basis, but labor leaders--encouraged mainly by the Communists--are insisting that the program be administered in accordance with a comprehensive plan geared to specific regional and sectoral targets. The Communists--who characterize the proposed fund as an opportunity to "relaunch economic planning" in Italy--maintain that priority should be given to labor-intensive investments, development of the backward south, and projects that will improve social services.

25X1 [] Andreotti noted this week that his program is still in draft form and subject to modification by Parliament. This theme was reinforced yesterday when budget officials announced they would be presenting only a "series of alternatives" to Parliament rather than a precise plan for industrial recovery.

25X1 [] If Andreotti leaves important details on this controversial issue to Parliament, many Christian Democrats will be disturbed because it will enhance the Communists' opportunities to claim credit for major legislation and to bolster their case for eventual inclusion in the government. []

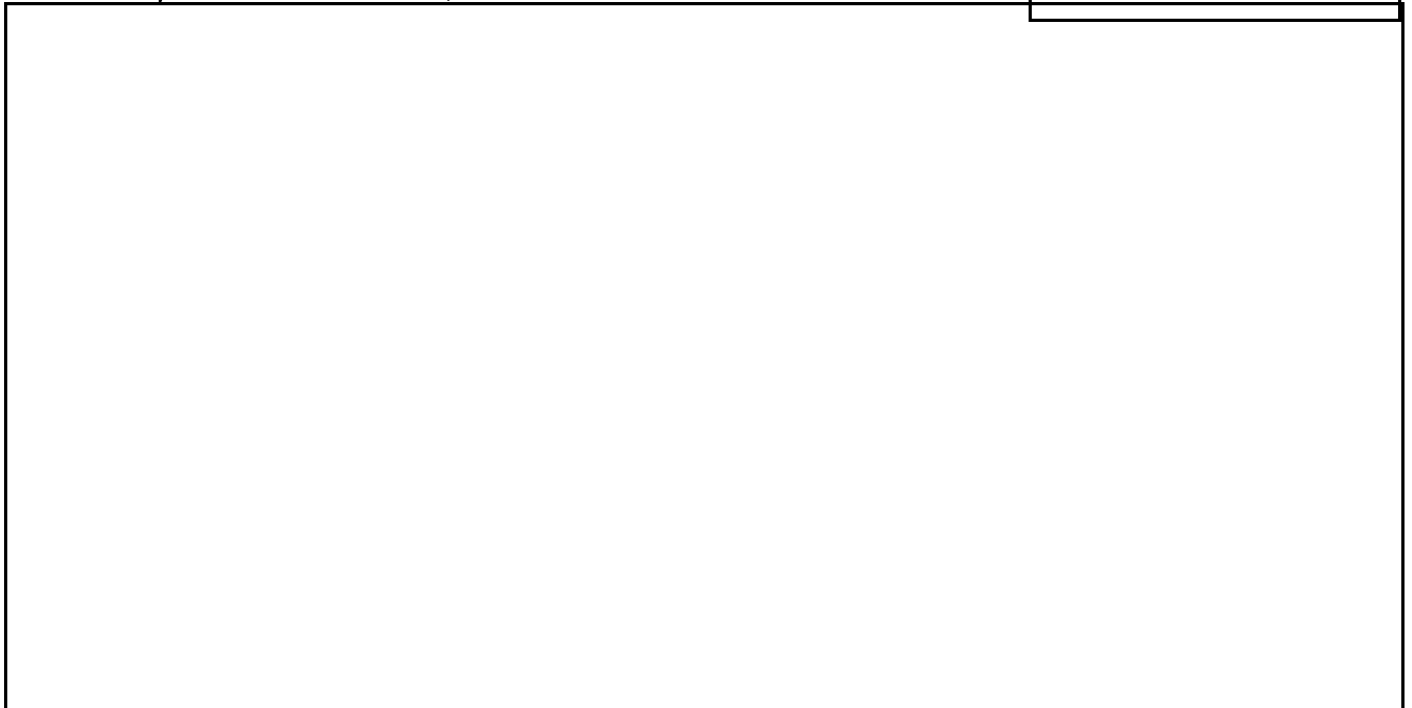
ITALY: Measures to Save Lira

25X1 [] Italian Premier Andreotti, following an emergency cabinet meeting last night, announced stiff measures to brake the recent plunge of the lira and shore up business confidence. The lira hit 873 to the dollar yesterday, the lowest rate in five months. The new actions include:

- Raising the discount rate 3 points to 15 percent, the highest level in history.
- Placing a 10-percent tax on foreign exchange transactions for two weeks.
- Increasing from 30 to 50 percent the amount of foreign currency equivalent required for exports.
- Increasing prices on petroleum products immediately.

25X1 [] These measures will shore up the lira temporarily. More fundamental measures will require parliamentary approval, which, in some cases, will be difficult to obtain. []

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ECUADOR: Gulf Confiscation Averted

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[REDACTED] Hours before the government-imposed deadline of October 1, Ecuador announced that Gulf Oil had paid more than \$50 million in overdue foreign exchange deposits required on export sales, averting confiscation of Gulf's share of Ecuadorean oil assets.

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[REDACTED] //The payment opens the way to negotiations for Ecuador to purchase Gulf's 37.5-percent share of the consortium. [REDACTED]

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